

# Strategic Management and the Creation of Technology-Based Firms

## Topic 2. Analysing the viability of a business idea



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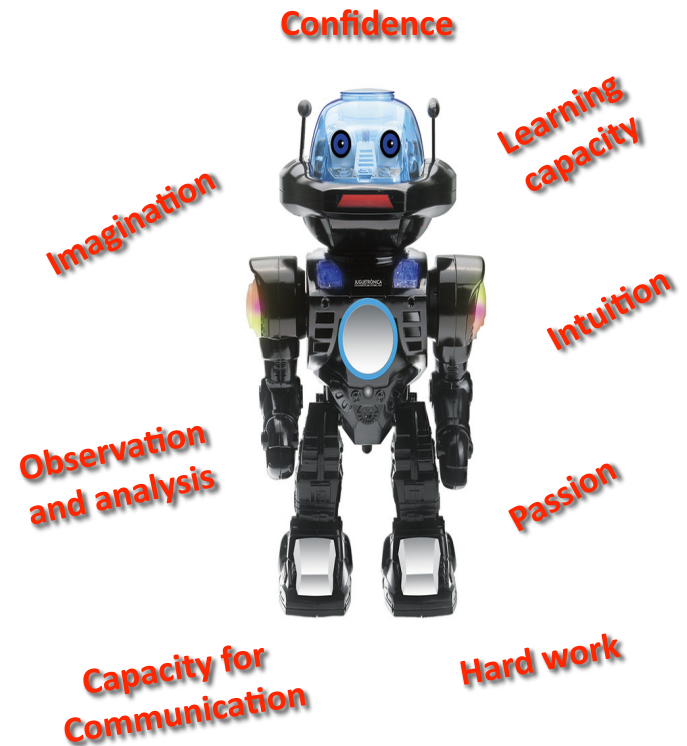
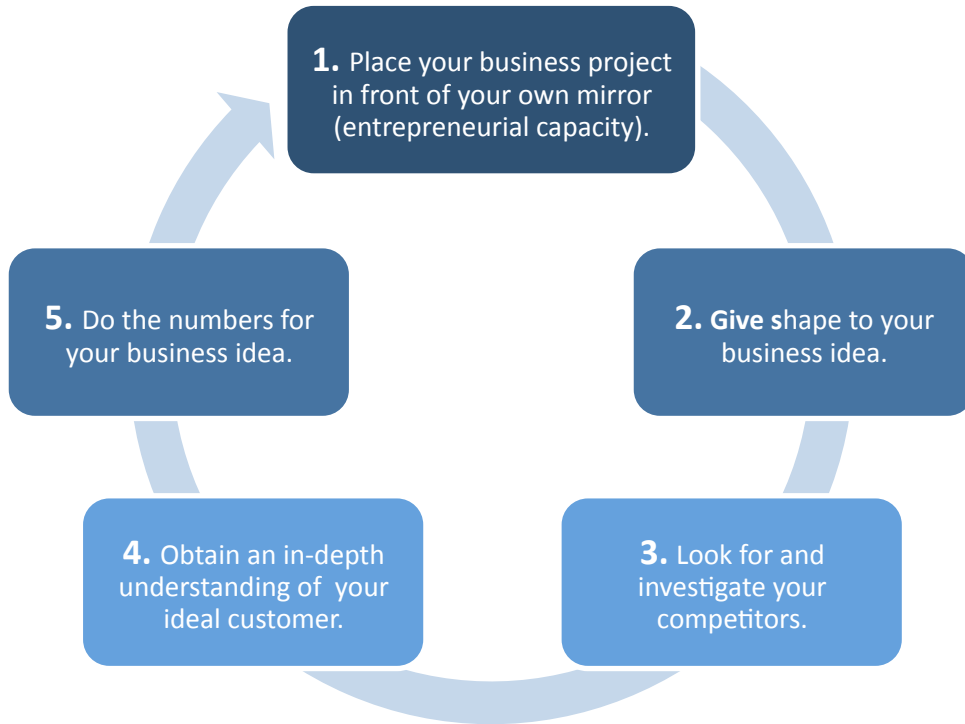
- When can we say that a business idea is viable?  
What exactly does it mean when we say that a project is viable?  
How is viability studied?
- **It involves responding to two basic needs:**
  - How should the entrepreneur structure all the information in order to decide, with a certain guarantee of success, whether or not to set up a company?
  - How should the business potential be communicated?

## Concept of viability:

- A project is viable when the idea is concretised in a transaction for which a demand has been detected, in a certain market, and when that demand is high enough and will last long enough to make profitable the investments required to produce the product/service in question.

Internal / external factors

## Pre-viability analysis: profile of an entrepreneur



### How can I analyse viability?

## DEFINITION OF THE BUSINESS MODEL (Canvas)

... This is the mechanism according to which a business strives to generate income and profit. It is an outline of how a company plans to serve its customers. It involves the concepts of strategy and implementation.

... It is a conceptual tool that, through a set of elements and their relationships, shows the logic of how a company intends to make money.

... It is a simplified representation of the business logic. It describes what a business offers to its customers, how it reaches them and how it interacts with them (who you are, how you do it, at what cost, with what resources and what sources of income you are going to have).

... To define your business model is to know what your DNA is, how it is made up, how it can be modified, how it can be refined, changed, shaped...

... This tool precedes the business plan and will allow you to clearly define what you are going to offer to the market, how you are going to do it, who you are going to sell it to, how you are going to sell it to them and in what way you are going to generate income.

### How can I analyse viability?

## WRITING UP A VIABILITY PLAN OR BUSINESS PLAN

... It is a document that identifies, describes and analyses a business opportunity and develops all the procedures and strategies required for converting business opportunity into a specific business project.

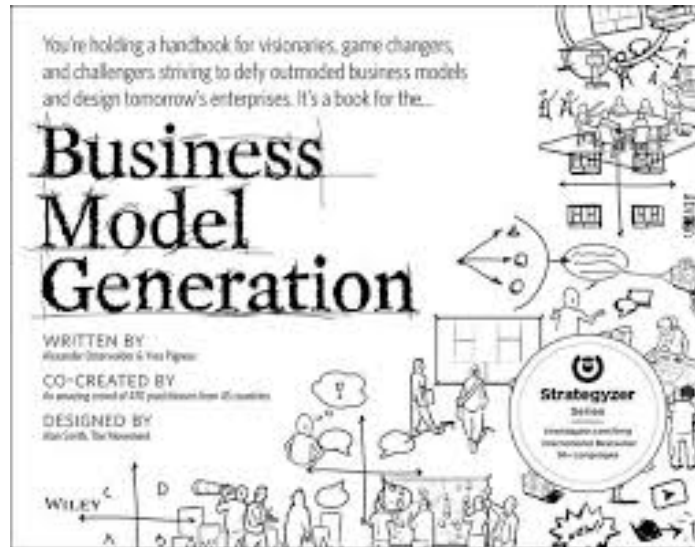
... It is a voluntary document –there is no pre-established norm about its structure– although there are guidelines for writing it.

... It must clearly define the schedule and deadlines for carrying out each one of the activities therein established. Defining this schedule or action plan enables assigning the resources required in each stage, making planning easier.

# The Canvas

## Business Model Canvas:

Methodology by Osterwalder and Pigneur

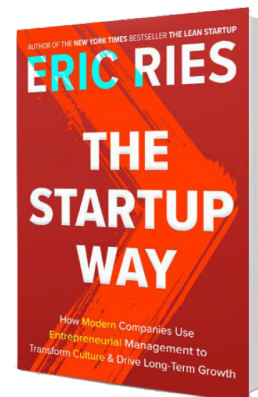




## Business Model Canvas

**This is one of the most commonly used tools in the Lean Startup methodology:**

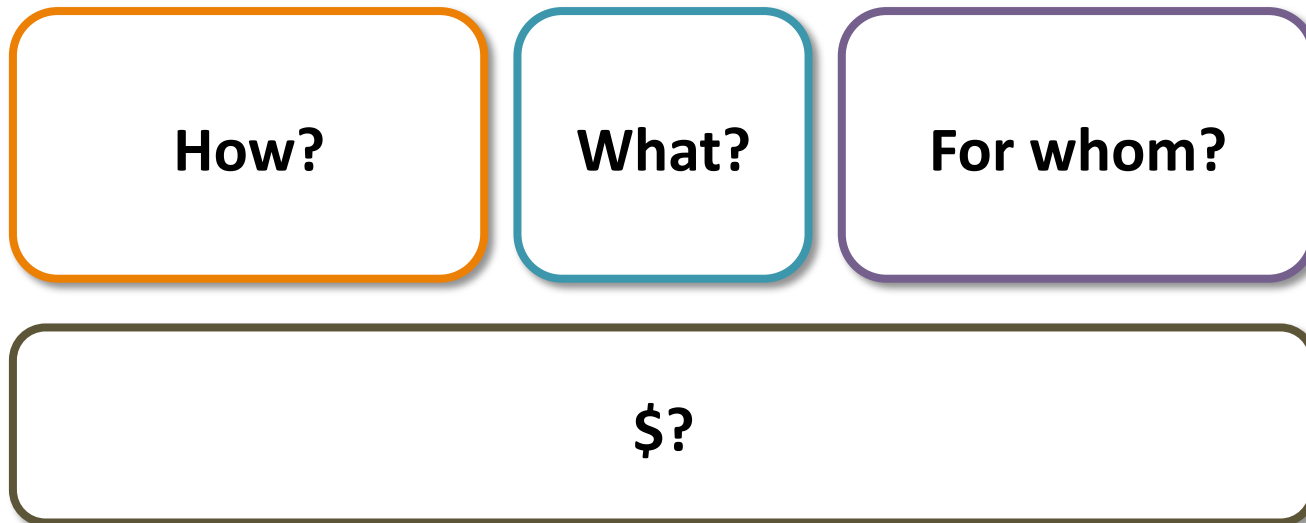
- Looking for the target customer.
- Active work with the customer.
- Continuous improvement.
- Speedy process –process of devising, experimenting, measuring and deciding–.



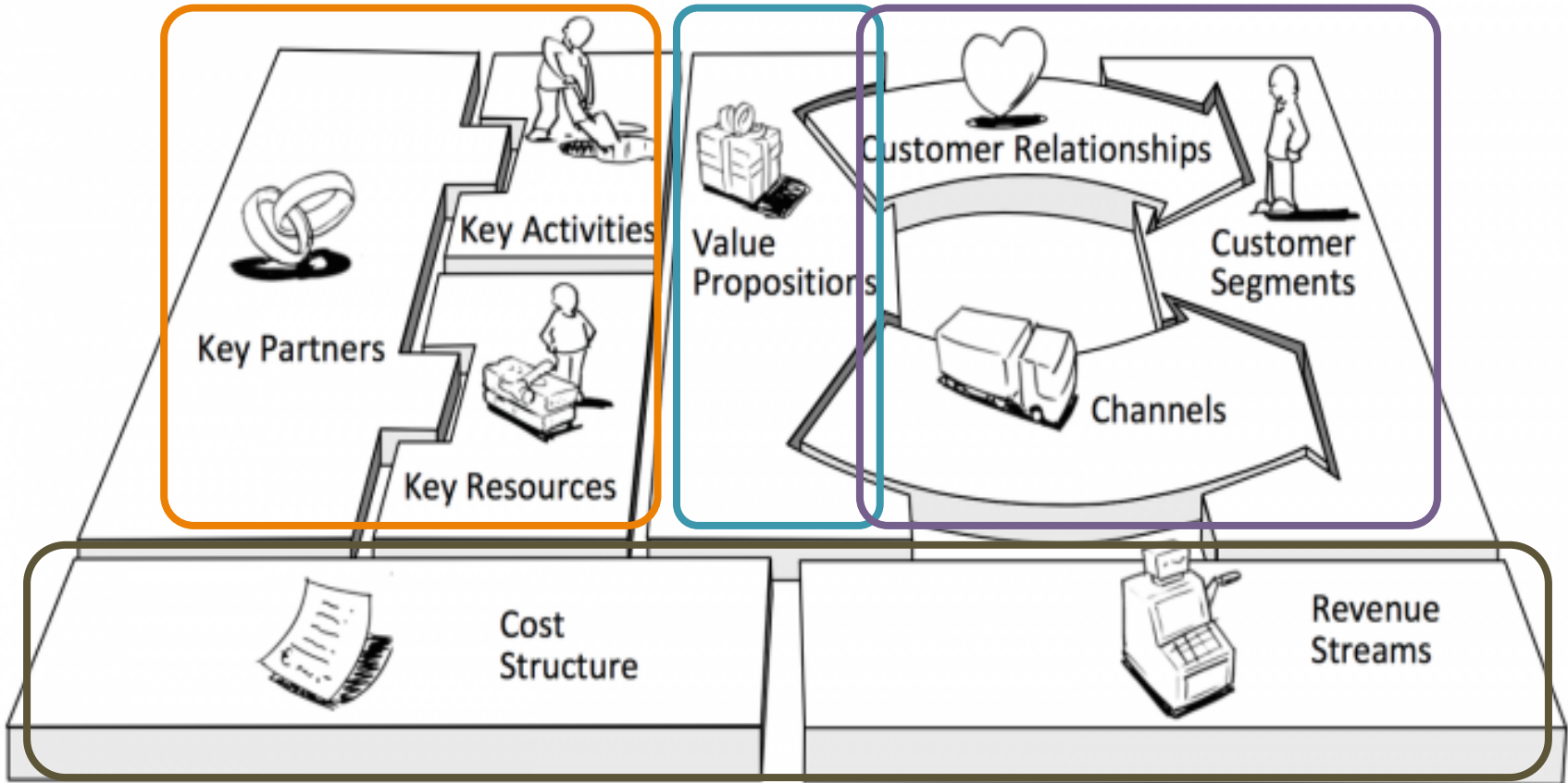
## Business Model Canvas

### Ontology:

- This is a conceptual scheme for making communication easier between different systems and entities.



# Business Model Canvas



# The Canvas












## The Business Model Canvas

Designed by:

Designed by:

On:  Day:  Month:  Year:

Iteration:

<h3>Key Partners</h3>  <p>Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?</p> <p><small>What do we need to do with our business model? What resources do we need? What activities do we need to perform? What channels do we need to use? What customer segments do we need to target?</small></p>	<h3>Key Activities</h3>  <p>What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p> <p><small>What do we need to do with our business model? What resources do we need? What activities do we need to perform? What channels do we need to use? What customer segments do we need to target?</small></p>	<h3>Value Propositions</h3>  <p>What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we addressing?</p> <p><small>What do we need to do with our business model? What resources do we need? What activities do we need to perform? What channels do we need to use? What customer segments do we need to target?</small></p>	<h3>Customer Relationships</h3>  <p>What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they?</p> <p><small>What do we need to do with our business model? What resources do we need? What activities do we need to perform? What channels do we need to use? What customer segments do we need to target?</small></p>	<h3>Customer Segments</h3>  <p>For whom are we creating value? Who are our most important customers?</p> <p><small>What do we need to do with our business model? What resources do we need? What activities do we need to perform? What channels do we need to use? What customer segments do we need to target?</small></p>	
<h3>Key Resources</h3>  <p>What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p> <p><small>What do we need to do with our business model? What resources do we need? What activities do we need to perform? What channels do we need to use? What customer segments do we need to target?</small></p>		<h3>Channels</h3>  <p>Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?</p> <p><small>What do we need to do with our business model? What resources do we need? What activities do we need to perform? What channels do we need to use? What customer segments do we need to target?</small></p>			<h3>Revenue Streams</h3>  <p>For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?</p> <p><small>What do we need to do with our business model? What resources do we need? What activities do we need to perform? What channels do we need to use? What customer segments do we need to target?</small></p>
<h3>Cost Structure</h3>  <p>What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?</p> <p><small>What do we need to do with our business model? What resources do we need? What activities do we need to perform? What channels do we need to use? What customer segments do we need to target?</small></p>		<h3>Revenue Streams</h3>  <p>For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?</p> <p><small>What do we need to do with our business model? What resources do we need? What activities do we need to perform? What channels do we need to use? What customer segments do we need to target?</small></p>			<h3>Revenue Streams</h3>  <p>For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?</p> <p><small>What do we need to do with our business model? What resources do we need? What activities do we need to perform? What channels do we need to use? What customer segments do we need to target?</small></p>

## Block 1. Customer segments

### Who are we creating value for?:

- Definition of the different groups of people or organisations being targeted by the company—based on differences in needs, form of access, type of relationship, profitability, demographic matters, etc.—:
  - Who are the customers?
  - Can you describe the different types of customers being targeted?
  - How do the customer segments differ?
  - Who are our most important customers?

## Block 2. Value proposition

### What attracts customers?:

- The factor that makes a customer choose the company.
- It is presented as a set of products or services that meet the needs of a certain market segment.
- There might be one single offering or several offerings and these may be aimed at a particular segment or several segments.
  - What value do we deliver to our customers?
  - What customer problems are we helping to solve?
  - What customer needs are we satisfying?
  - What is our unique offering?

## Block 3. Customer relationships

### What type of relationship do we want to establish with our customer?

- Defines the type of relationship that we want to establish with our customer (personal/automated) as well as the procedure for capturing, retaining and stimulating sales (persuasive selling).
- It is important to bear in mind the different stages of the relationship cycle, like pre-sales, sales, post-sales and migration to new offerings.
  - What types of relationships do you establish with clients?
  - Have you got a relationship management strategy?

## Block 4. Communication and distribution channels

### How is the value proposition delivered to the customer?:

- Explains the way in which a company communicates with the different market segments in order to reach them and offer a value proposition.
- Establishes the points of contact for raising awareness about the product/service, purchasing it, providing post-sales customer service, etc.
  - Which channels do our market segments prefer?
  - How are our channels integrated?
  - How are we integrating them with customer routines?



## Block 5. Revenue streams

### How much are they willing to pay for the value proposition?:

- Cash flow that a company generates in the different market segments.
  - What are the most important and expensive resources in our business model?
  - What are customers willing to pay for our solution?
  - How are they currently paying? How would they prefer to pay?
  - What are the revenue streams? How does each revenue stream contribute to total revenue?
  - What margin will be obtained?

## Block 6. Key resources

**What resources do we need to generate the value proposition, deliver it to the customer, interact with the customer and generate income?:**

- These are the resources that a company must deploy in order to make the business work. It includes physical, intellectual, human and financial resources. They may be in-house, rented or acquired from key partners.
  - What are the most important and expensive resources in our business model?  
(People, networks, facilities, skills...).

## Block 7. Key activities

### What key activities must we perform in order to operate successfully?:

- These are the main activities that must be carried out using key resources to produce the value proposition and to manage relationships with customers and partners. It is essential to focus on key skills and look for partners for the others.
  - What are the key activities and processes in the business model?

## Block 8. Key partners

### What key alliances do we require for the model to be successful?:

- This defines the partners and suppliers that must be identified and with whom relationships are established (joint ventures, strategic alliances, cooperation...).
- Who are our most important strategic partners?
- Who provide key resources and perform key activities?
- What in-house activities could be done cheaper and better if they were outsourced?

## Block 9. Cost structure

- This describes the main costs incurred when working with a certain business model. It considers the costs for both the creation and delivery of value as well as those relating to maintenance and customer relationships (FC, VC, HRC, rental...).
- What are the most important costs inherent in our business model?
- Which key resources are most expensive?
- Which key activities are most expensive?

# VIABILITY PLAN OR BUSINESS PLAN

### Purpose

#### From an external point of view:

- To present the business project to any organisation, entity or person who asks for a description of the project (introduction letter).
- To apply for subsidies offered by public authorities.

#### From an internal point of view:

- To allow making an objective analysis of the business idea's viability. This will be useful for implementing the business idea and detecting all deviations that occur with regard to the original plan.
- To detect and correct mistakes in planning thus increasing the likelihood of success.
- To consolidate the entrepreneurial team's commitment and motivation.

## Who writes it?

- External consultancy with the participation of all the project's promoters. Collective participation facilitates:
  1. Creating a collective feeling of belonging to the new project.
  2. General awareness of the project and its implications, particularly when each one of the promoters only specialises in one part of the business.
  3. Obtaining a tacit agreement on the objectives to be reached, the investments and spending required and the volume of financial resources that must be provided by the promoters, both individually and collectively, by, for example, applying for bank financing.



### Who writes it?

#### Various sources can be used to write it:

- **Database:** SABI, Amadeus, Global Market Information Database (GMID), Banco Mundial, Eurostat, etc.
- **Public bodies:** Instituto Cántabro de Estadística (ICANE), Instituto Nacional de Estadística (INE), Agencia Tributaria, Seguridad Social, INEM, Banco de España, Gobierno de Cantabria, Servicio Cántabro de Empleo (EMCAN), Sodercan, Ministerio de Industria, etc.
- **Business organisations:** [Cantabria Chamber of Commerce](#), Guíame, etc.
- **Banks and financial institutions:** interest rates, simulators, etc.
- **Others:** collective agreements, statutes, deeds, etc.

### How is it written and sent?

- It must be sent to all external agents who are considered to be important in achieving the project's implementation –people that we want to attract as partners, investors or key employees, financial institutions to whom we are going to apply for a loan, public authorities that award grants and possible suppliers or customers who are key to initiating the business activity–.
- It is important to pay attention to format, structure (clear and orderly) and the way information is presented (visual appearance).

## How is it written and sent?

- **Clarity.** Simple and direct wording, using tables and graphs to support the text.
- **Objectivity.** The reader must believe in the project's viability and therefore needs to be provided with specific data. Generalities and ambiguous and subjective statements must be avoided.
- **Honesty.** It is important to communicate the project's positive aspects, but also the possible negative ones and any limitations or difficulties that may be encountered.
- **Conciseness.** People who are sent the business plan usually have limited time, so the document should not be too long or complex to read.
- **THINK ABOUT WRITING AN ELEVATOR PITCH.**



## Structure of a business plan

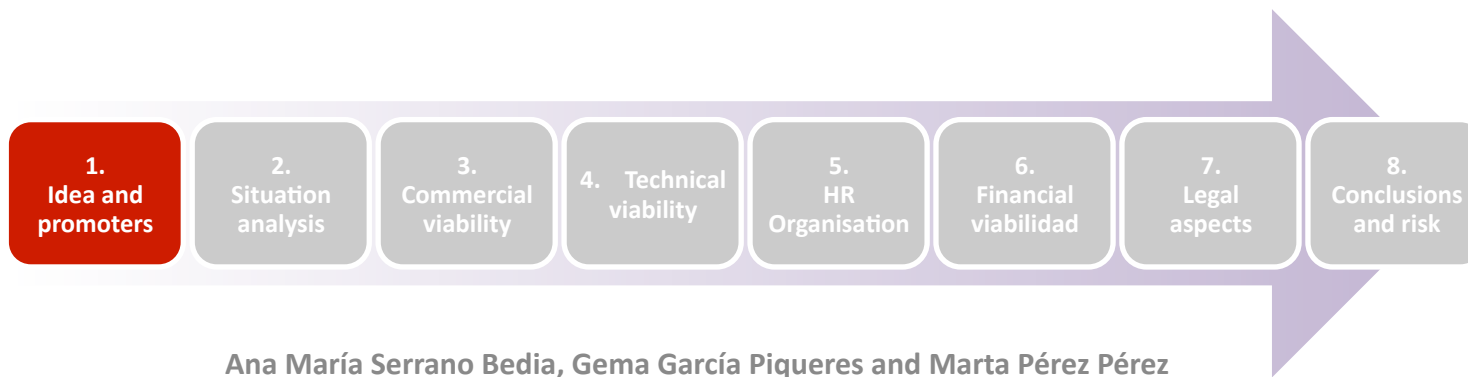
### A viability plan is made up of different parts:

- Description of the idea and presentation of promoters.
- Analysis of the situation.
- Commercial viability.
- Technical viability.
- HR organisation.
- Financial viability.
- Legal aspects.
- Conclusions and risk analysis.



## 1. Description of the idea and presentation of promoters

- **Definition:** project's general characteristics (what activity are we going to engage in, motivations and reasons).
- **Location of the company:** where the company's headquarters and facilities will be located. For purely local businesses (a restaurant, a shop, a nursery...), it is advisable to indicate the planned location, in other words the area or neighborhood where it will be situated.
- **Product/service/differential characteristics – competitive advantage:** Why are the customers going to choose my company/product?



# 1. Description of the idea and presentation of promoters

- Profile of promoters: training and professional experience (including scholarships, work experience, collaboration).
- Promoters' experience or skills that make it possible to set up and manage the new business.
- Description of the team that will form your company (training, experience, experience in the sector in order to demonstrate their know-how). Dedication and responsibilities in the business project. Indication of the promoters' level of involvement and type of involvement in the project's development, as well as their future functions, specifying their possible managerial positions and if they will be partner-workers or just partner-investors.

## 2. Analysis of the situation

- **Adapting CV to the current type of environment:**
  - Greater pressure from competitors.
  - Lesser time for adapting to changes in the environment.
  - Gradual increase in uncertainty.
- **Success of the company:** being aware of and foreseeing the evolution of the environment.
- **Analysing two types of environment:**
  - Generic environment: this concerns sociological, political and macroeconomic aspects, which affect all companies in a similar way.
  - Specific environment: factors relating to demand, consumer/customer behavior or competitive structure, which clearly affect each type of company in different ways.



## 3. Commercial viability/Marketing plan

- **Defining the target customer's profile and customer needs (empathy map):**
  - Identify business opportunities or attractive market segments.
  - Determine the business objectives for a specific period of time.
  - Outline what aspects of the offering should be promoted in order to stand out from competitors.
  - Position the brand and/or products.
  - Design the brand and product policy.
  - Decide the path or route that the product will follow until it reaches its point of sale.
  - Choose the communication tools that will be used for promoting the company and its products.





## 4. Technical viability

- Provide a detailed description of the technical means required by the company to carry out its activity: premises, fittings, facilities, production processes, outsourcing, safety and occupational hazard prevention, environmental issues, etc.
- Decisions concerning supply management –purchasing policy, supplier selection–, stock management and quality control.
- Licence needs.



## 5. Organisation of human resources

- Job positions that will be created in order to define the company's optimal size (combining the level of attention required with a suitable level of costs and investment adjusted to the real sales volume).
- Distribution into categories and assignment of responsibilities: profiles, selection, type of contract.
- Employment forecasts and training.



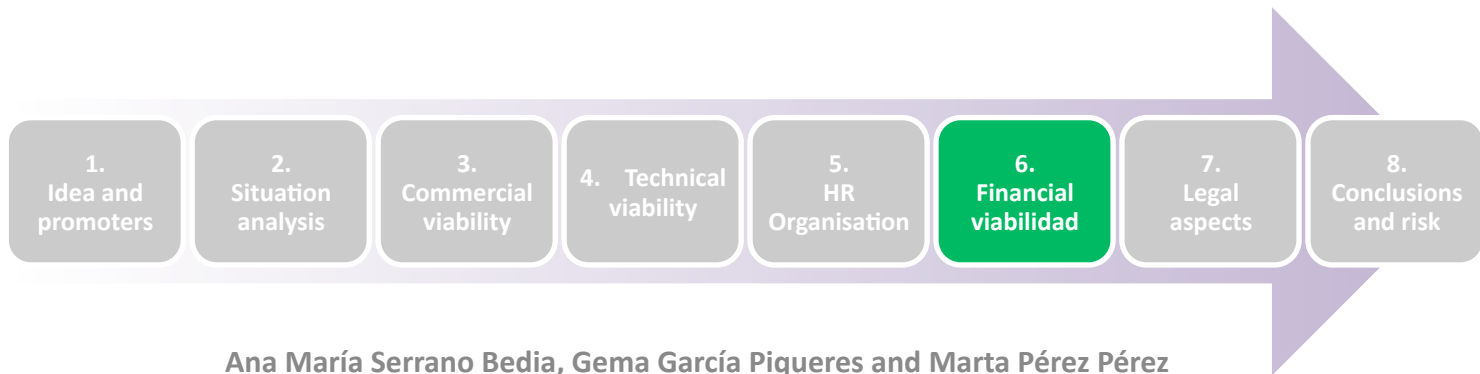
## 5. Organisation of human resources

- **Company's organisation chart:** graphical representation of the new company's organisational structure. It determines the different hierarchical levels (managers, intermediate positions, workers, etc.) and defines the different functions or areas of activity (marketing, production, finance, personnel, etc.).
- **Composition of the managerial team:** description of the members of the managerial team, indicating their professional experience, skills, academic training, level of specialisation, professional achievements, functions to be carried out, responsibilities to be undertaken, type of involvement (part-time, full-time).
- **Identifying profiles and positions required:** mainly intermediate positions and workers. It is advisable to establish the tasks that each employee will perform both quantitatively (how many tasks) and qualitatively (what tasks).
- **Establishing the human resource policy:** policy concerning recruitment/remuneration and incentives/performance evaluation/training and personal development.
- Analysing personnel needs and growth prospects.

## 6. Financial viability

- Project's economic needs.
- Identification and selection of external sources of finance.
- Financial plan.

# Profitability / Financial Structure



## 6. Financial viability: project's economic needs

- Analysis of the project's economic needs: own resources, external resources and investments.
- Study of the financial possibilities existing in the market: bank loans, leasing, lines of credit, bill discounting...
- The following aspects must be taken into account:
  - Repayment period.
  - Existence of gaps in coverage.
  - Interest rates.
  - Additional guarantees (guarantors).
  - Time money available.

## 6. Financial viability: identification and selection of external sources of finance

- Financial institutions and banks.
- Credit unions.
- Leasing companies.
- Factoring/confirming companies.
- Deferred payment to suppliers.
- Advance payment from customers.
- Venture capital firms.
- Business Angels.

## 6. Financial viability: financial plan

- **Income and expenditure forecasts with a projection of 1 to 3 years:**
  - **Fixed costs:** rental, financial costs, cleaning costs...
  - **Variable costs:** utilities consumption, transport, goods purchased, advertising campaigns...
- Monthly forecast of sales.
- The cash flow forecast will determine how the financial budget is designed and the decisions taken depending on its result.

## 6. Financial viability: financial plan

### The different cost items to be considered include:

- Rental.
- Basic utilities.
- Salaries.
- Social security costs.
- Goods and raw materials.
- Packaging/storage.
- Distribution.
- Cleaning.
- Safety.
- Agency for administrative work.
- Insurance.
- Representation expenses.
- Tax costs.
- % corporate tax.
- % withholding on invoicing.
- Company's website.
- Logo and trademark registration.
- Corporate stationary.



## 7. Legal aspects

- **Choosing the project's legal form:** being aware of the characteristics of each modality and the aspects relating to their management (obligations/tax implications/marital property).
- **Legal forms:**
  - Sole proprietor.
  - Companies with legal personality (commercial or special).
  - Collectives without legal personality.



## 7. Legal aspects

### The criteria to be evaluated include:

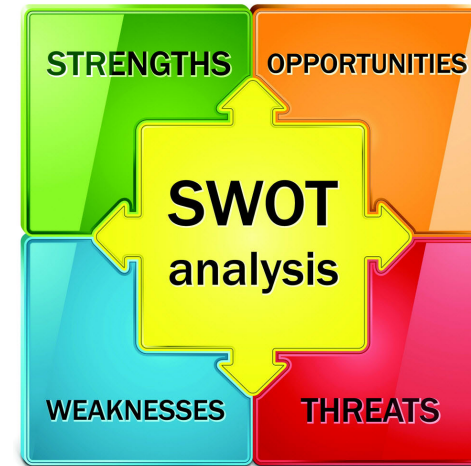
- **N° of promoters:** if it is decided to carry out the activity alone, we can choose whether or not to limit liability. When more than one person is involved, it is advisable to use a corporate form, whether that be civil or commercial.
- **Third-party liability:** whilst companies enable limiting liability with the assets attached to the company, sole proprietors have unlimited liability, with both business and personal assets being at risk.

## 7. Legal aspects

- **Administrative procedures:** commercial companies have a more complicated setup, as they acquire legal personality, whilst a natural person only carries out the administrative procedures pertaining to carrying out their activity. Today, the [New Business Limited Company](#), in its online version, makes setup faster.
- **Minimum capital requirement for incorporation:** a natural person does not need to provide a minimum capital, whereas a legal entity does (except for a few exceptions).
- **Taxation of profits:** a natural person is subject to Personal Income Tax, whereas companies are subject to Corporate Tax.

## 8. Conclusions and risk analysis

- The business plan must conclude by showing the means and capabilities available to the business project –a critical analysis of the project that sets down both positive and negative aspects–.
- One commonly used tool is the **SWOT** analysis (Strengths, Weaknesses, Opportunities and Threats). Once all the data have been gathered, it helps to perform a strategic analysis (internal and external).

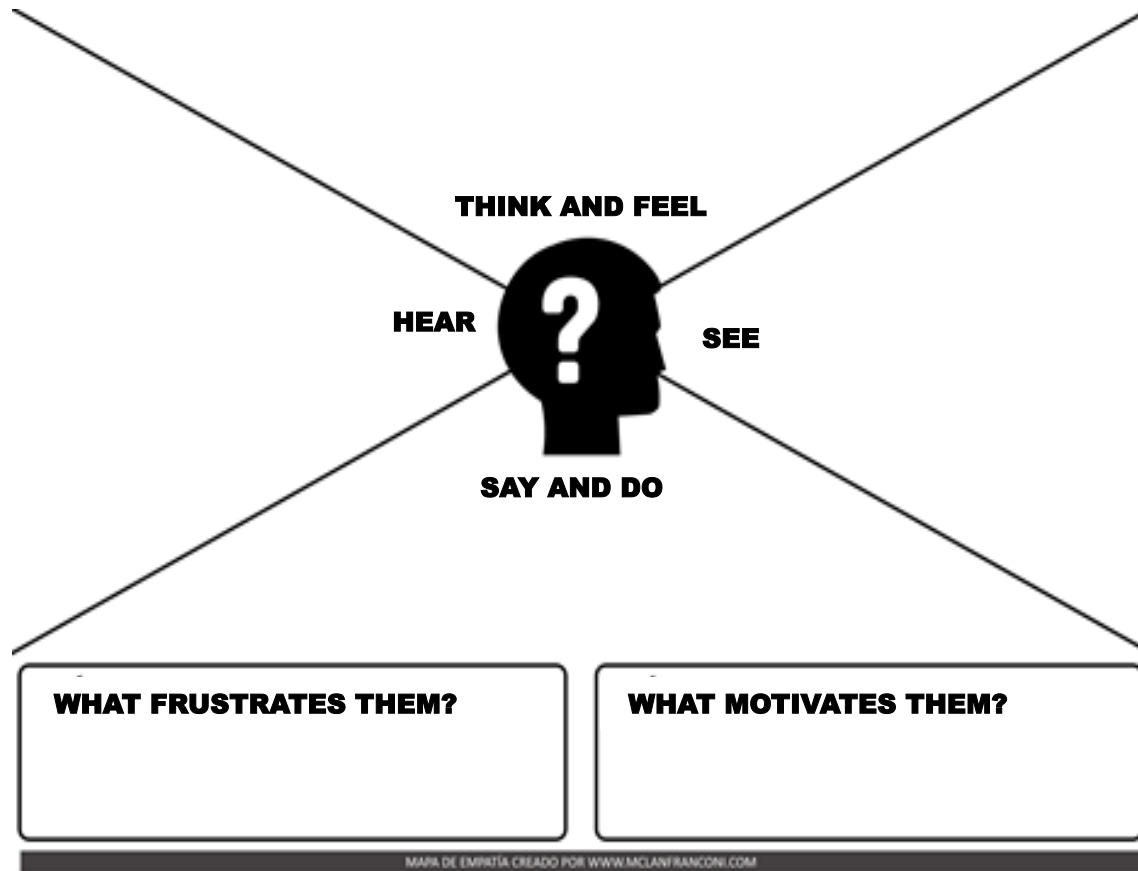


## 8. Conclusions and risk analysis

- It is advisable for several people to take part in carrying out the SWOT analysis.
- It is advisable to hold one or several debate sessions (which can be organised as “brainstorming” exercises), to put on the table the different opportunities, threats, strengths and weaknesses detected.
- The SWOT analysis must emerge from the data and information gathered in the strategic analysis, avoiding the inclusion of preconceived and subjective opinions that have not been proven, such as *“I know that...”*, *“although they haven’t said so, the truth is that...”*, *“although the data don’t show it, I think that...”*.

**THE CORE OF BOTH TOOLS:  
TO ACQUIRE A DEEP  
UNDERSTANDING OF YOUR  
CUSTOMERS...  
HOW CAN I DO THAT?**

### Empathy map



### Contextualising the empathy map

### What do they think?

- What stirs your customers' emotions?
- What are their worries?
- What really matters to them (and they don't say it)?
- What are their expectations?



### What do they hear?

- What do they hear in their working environment?
- What do their friends and family say to them?
- Who influences them the most?
- How do they do it (with that means)?

### What do they say or do?

- How do they normally behave in public?
- What do they say matters to them?
- Who do they talk to?
- Do they influence anyone?
- Are there any differences between what they say and what they think?

### What do they see?

- What is their environment?
- What kinds of offerings are they exposed to?
- Who are the key people surrounding them?
- What kinds of problems are they faced with?

### Pains?

- What frustrates them?
- What fears or risks worry them?
- What obstacles stand in the way of their objectives?

### Gains?

- What would they really like to achieve?
- What is success to them?
- How do they try to achieve it?

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